

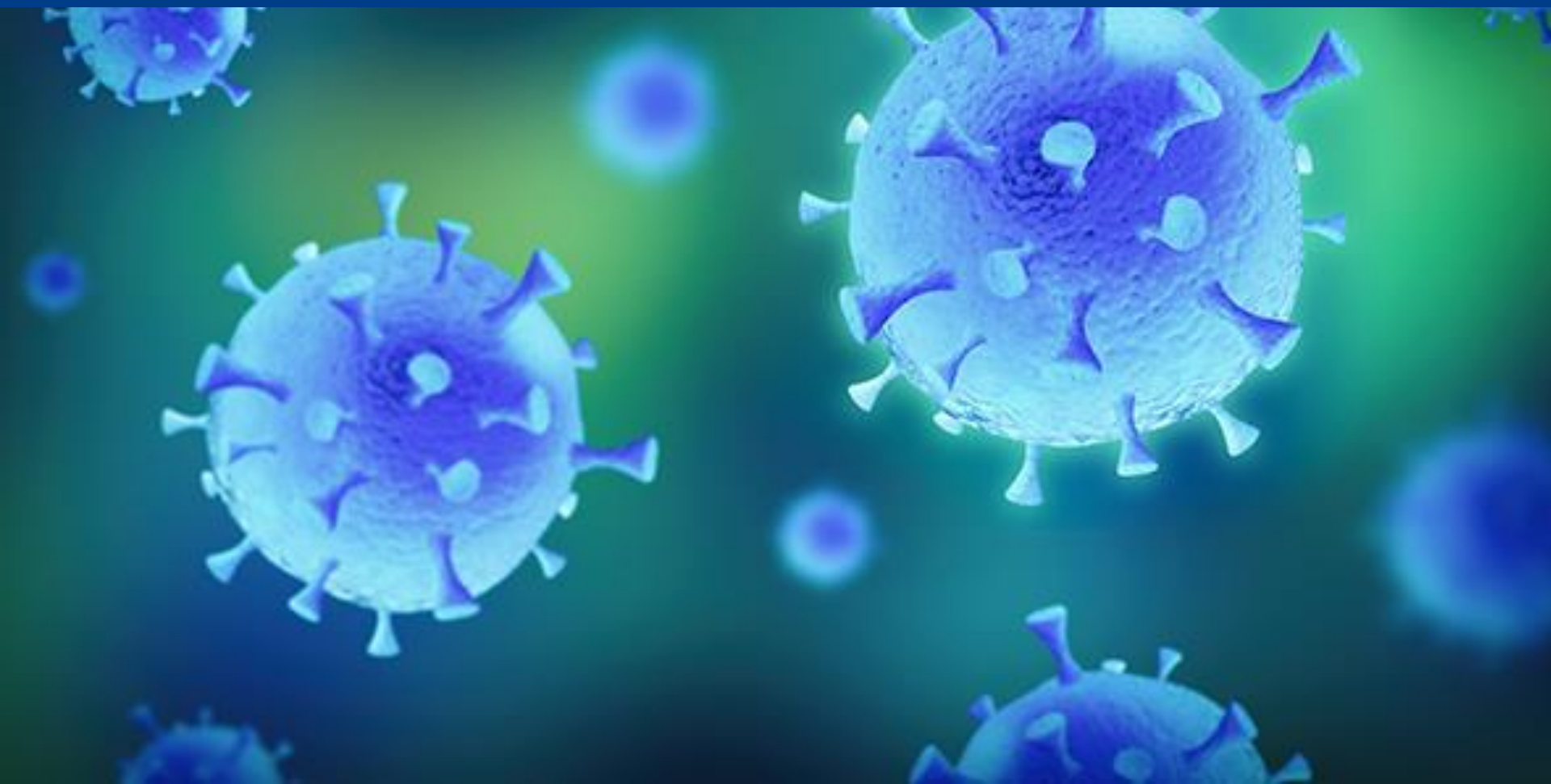
REGIONAL ECONOMIC PROSPECTS IN THE EBRD REGIONS

April 2020



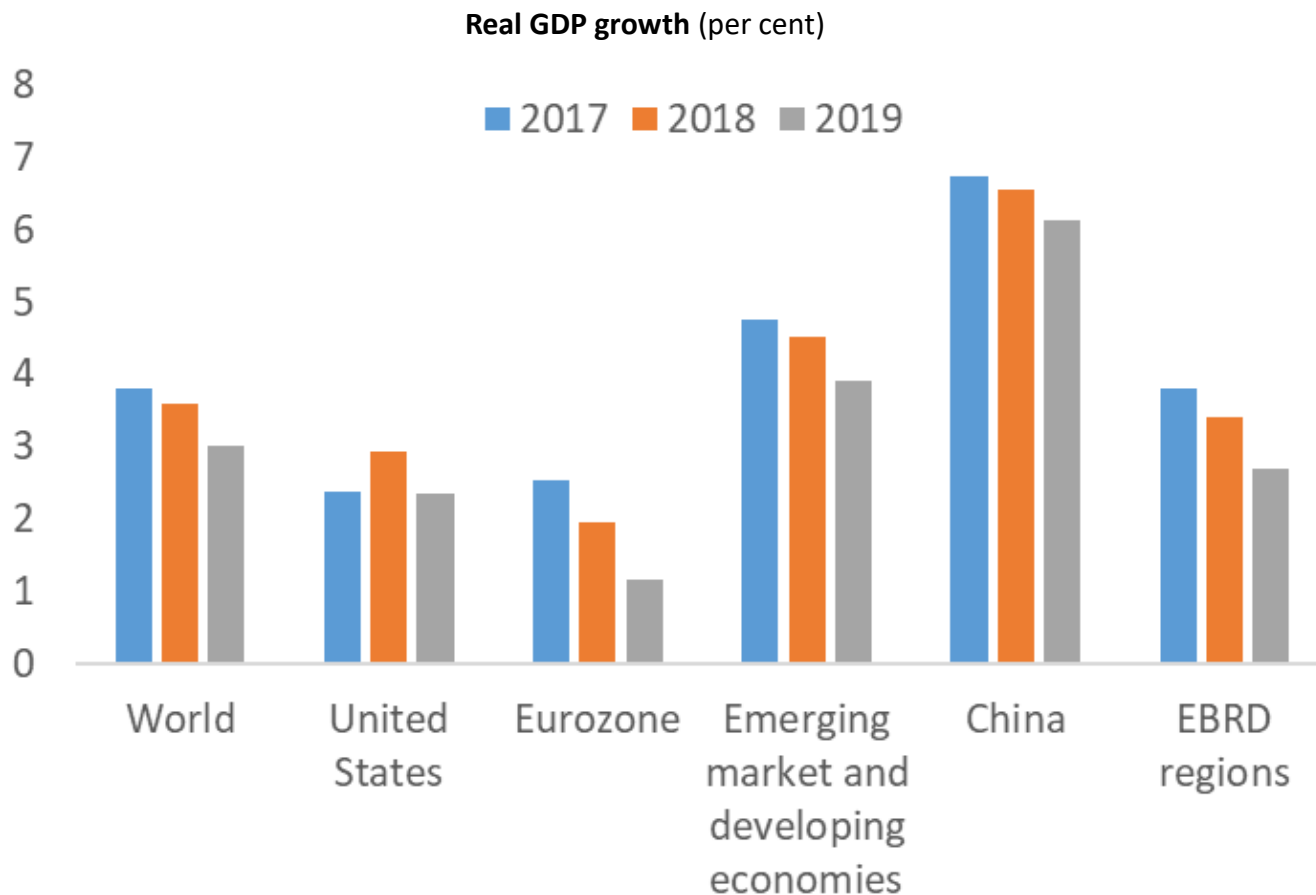
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Covid-19: From shock to recovery



Growth in the EBRD regions slowed to 2.6 per cent in 2019, in line with slowing global growth

Global growth has been slowing since 2017, with stark decelerations in the eurozone and China



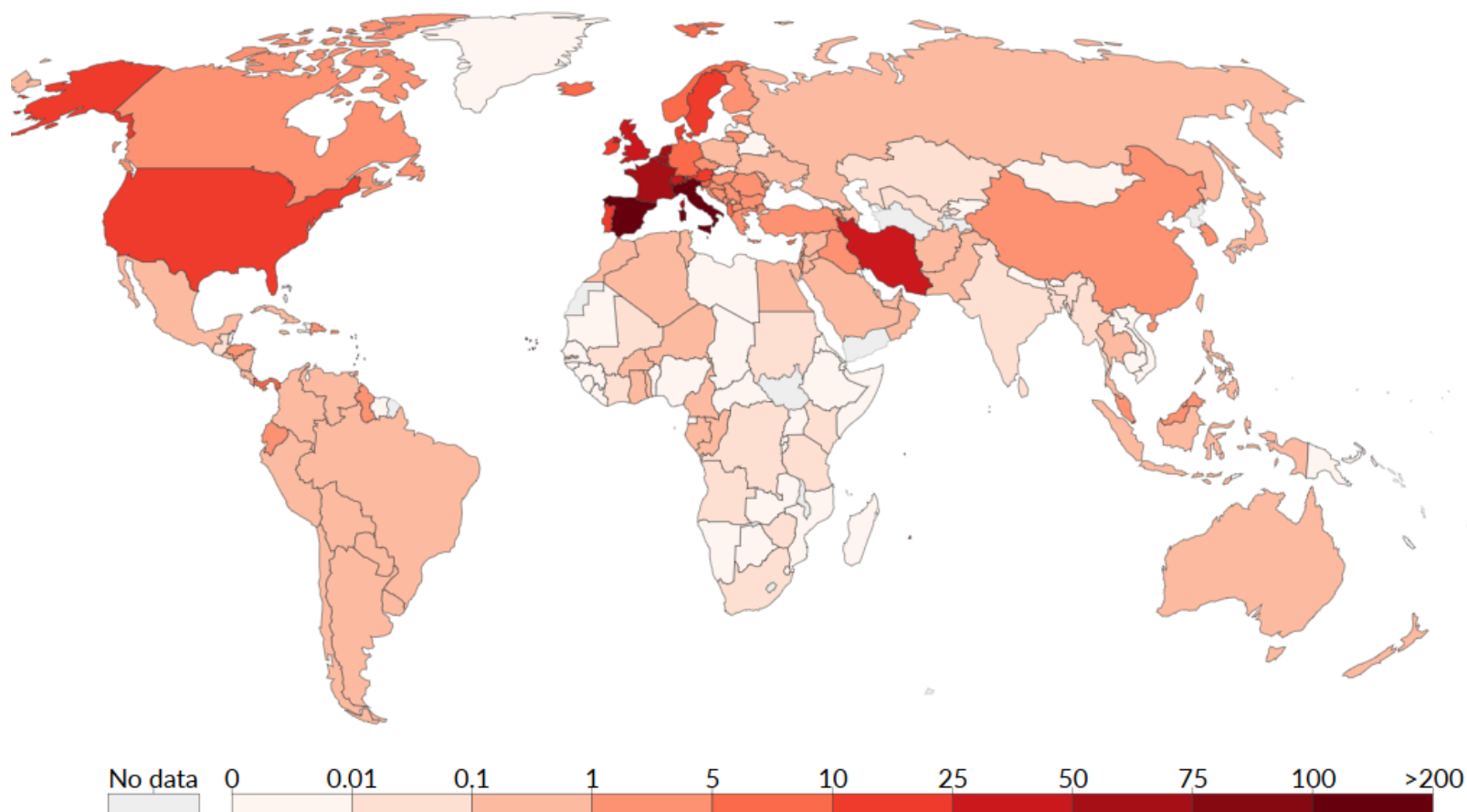
The Covid-19 pandemic hit on top of this deceleration and is expected to result in a sharp contraction



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Leading to the greatest disruption to the global economic activity since the Second World War

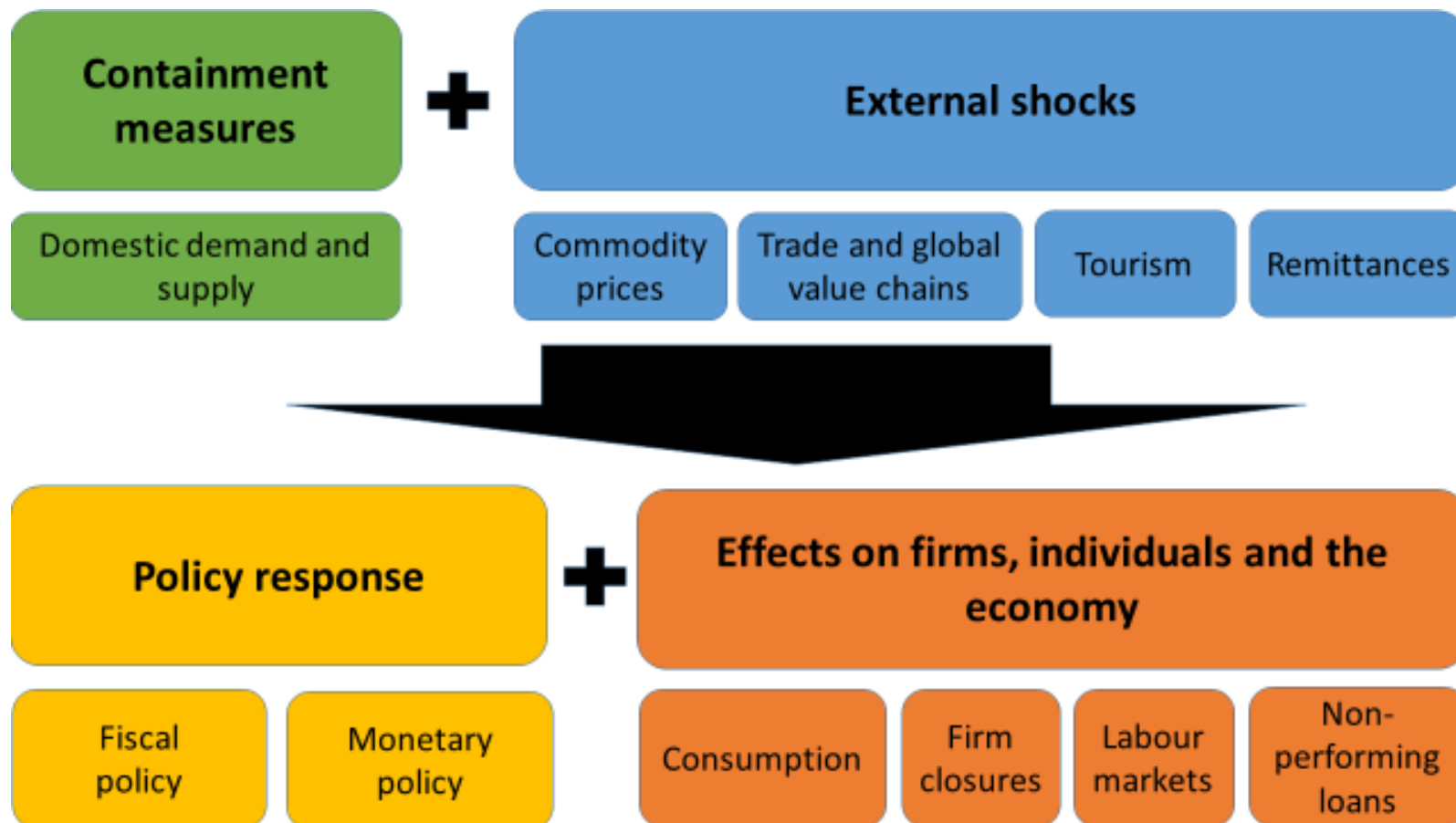
Total confirmed deaths per million people, 1 April 2020



Economic impact of domestic containment measures is compounded by external shocks

Containment measures aimed at slowing down the spread of the virus affect domestic demand (due to restrictions on consumptions, people spending less) and domestic supply (as fewer people can work)

Channels through which the Covid-19 crisis could affect the EBRD regions



Economic impact of domestic containment measures

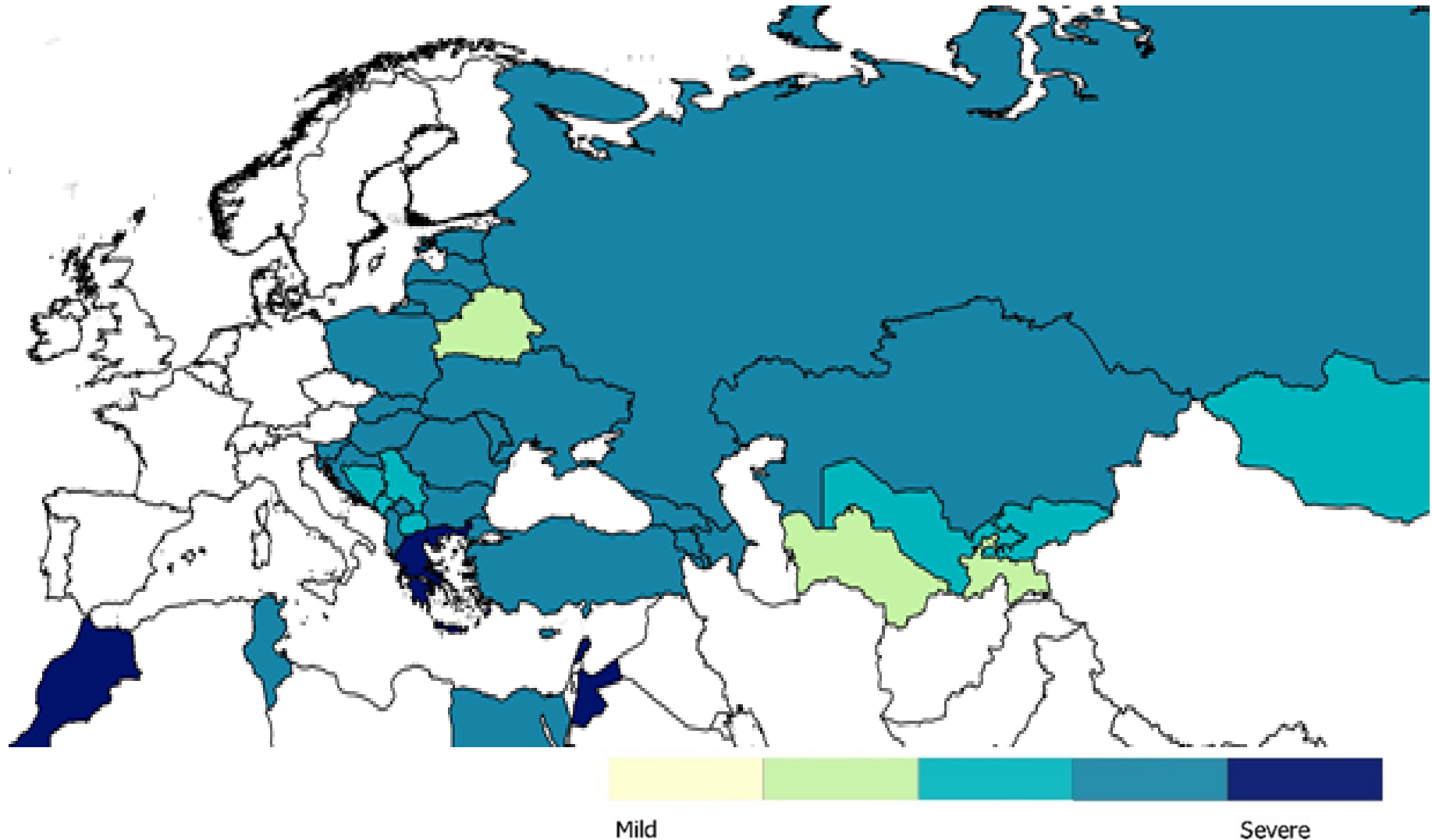


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Containment measures in the EBRD regions, end-March 2020



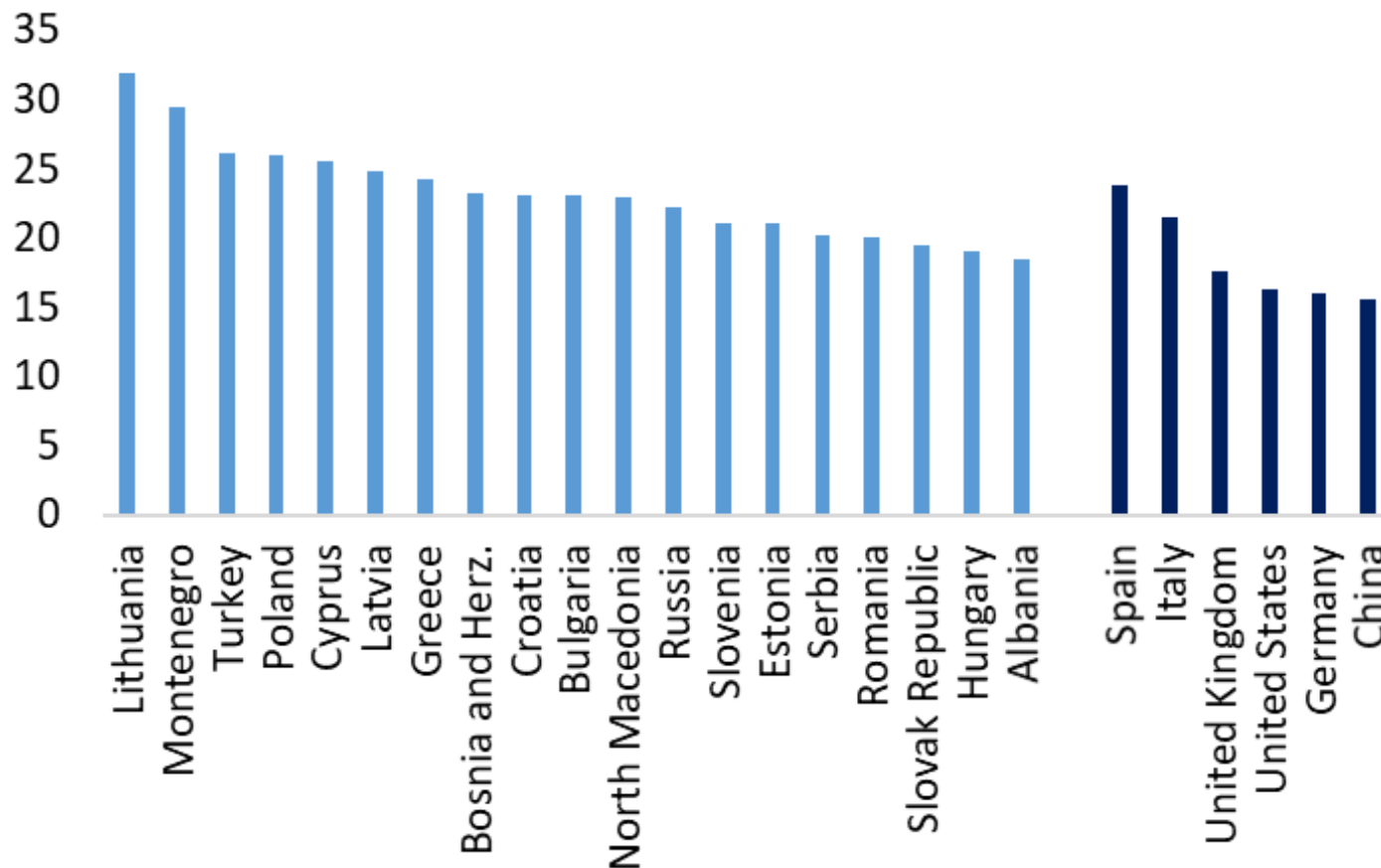
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Source: Authors. Note: Containment measures are cumulated and range from no restrictions (mildest) through border closures, school closures, bans on large gatherings, restrictions on retail, industry closures to lockdowns/curfews (most severe).

Effects are likely to be larger where services account for a larger share of GDP

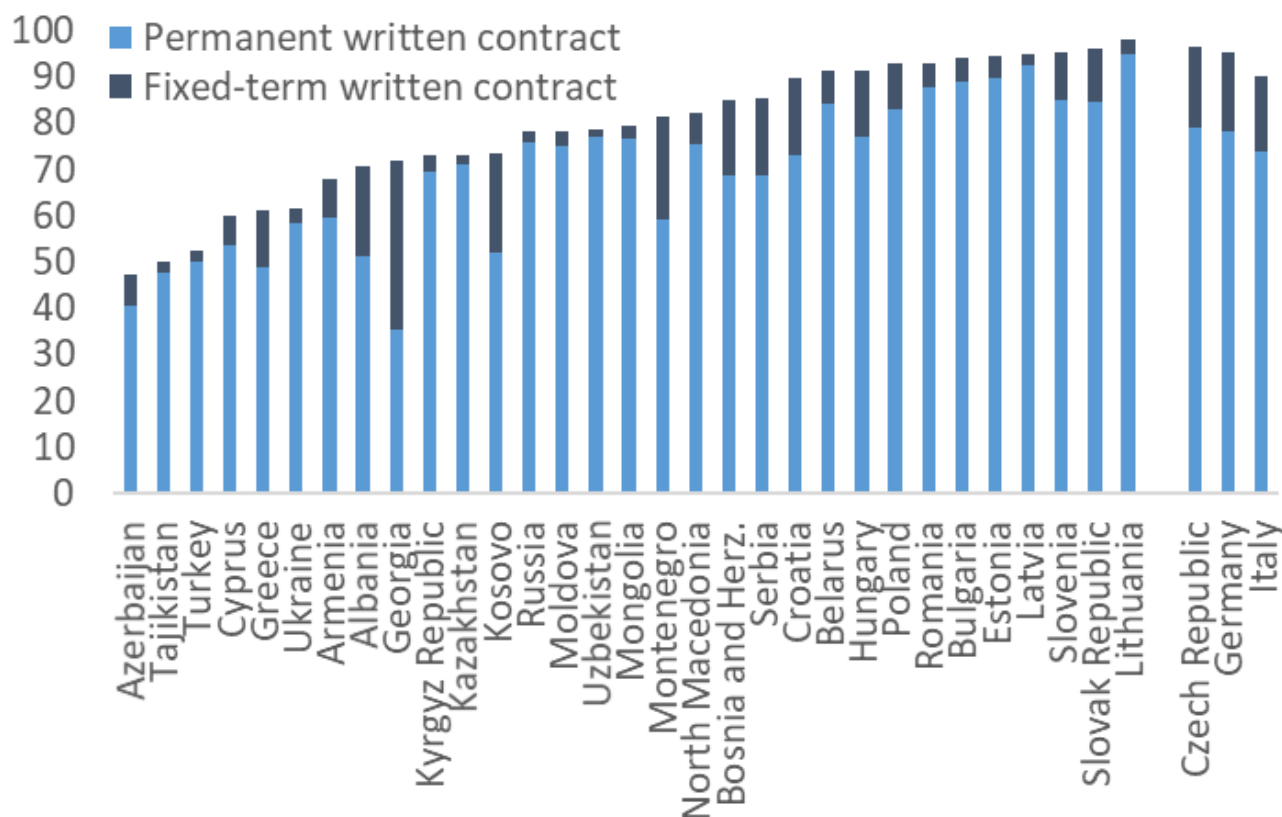
Wholesale and retail trade, transport, accommodation and food service activities as a share of GDP, 2018 (per cent)



Effects may be greater where informality is higher and permanent contracts less prevalent

Most people do not have permanent contracts in Central Asia, Eastern and South-eastern Europe

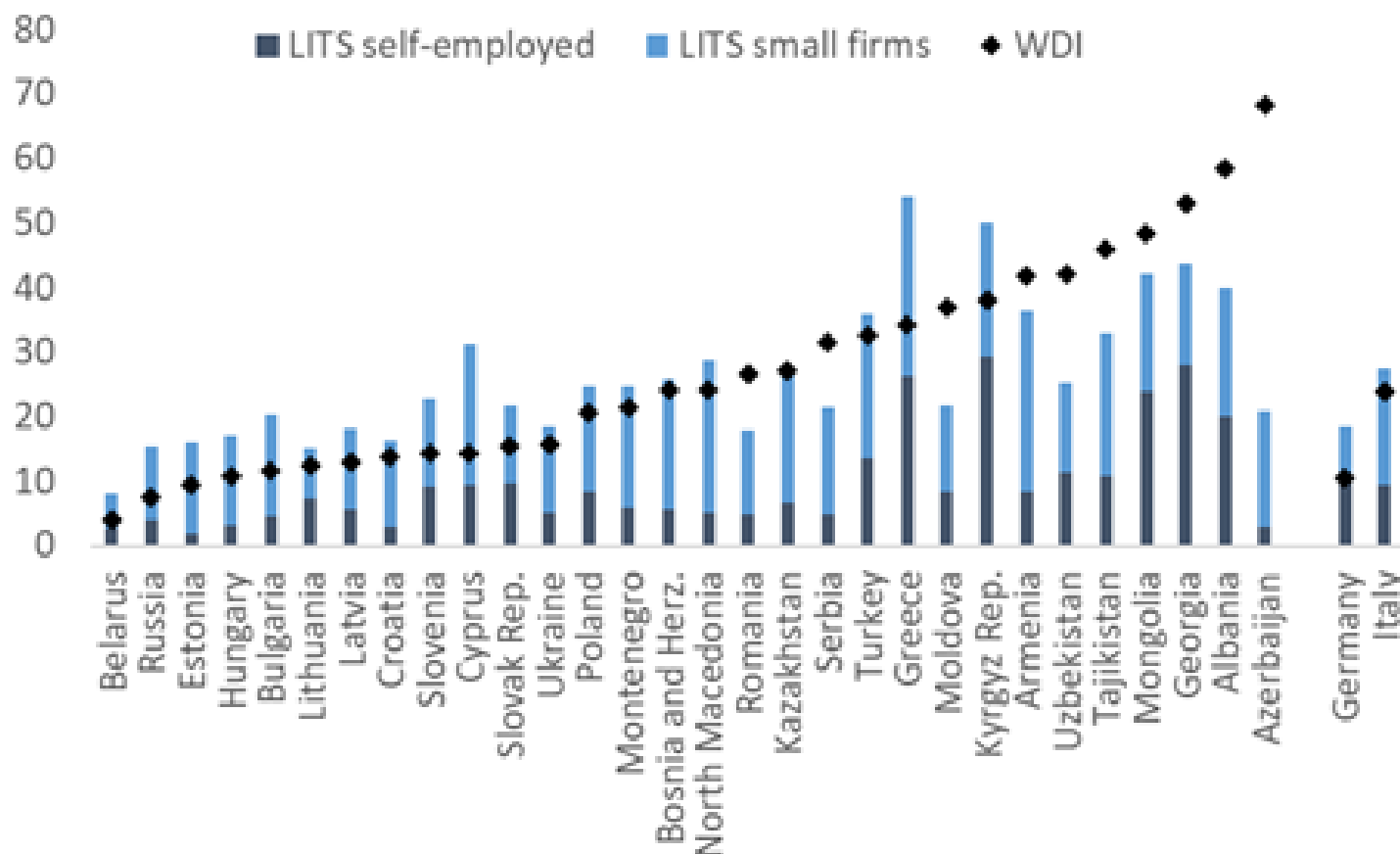
Share of those employed in the last year by contract type, 2016 (per cent)



Effects may be greater where self-employment is more widespread

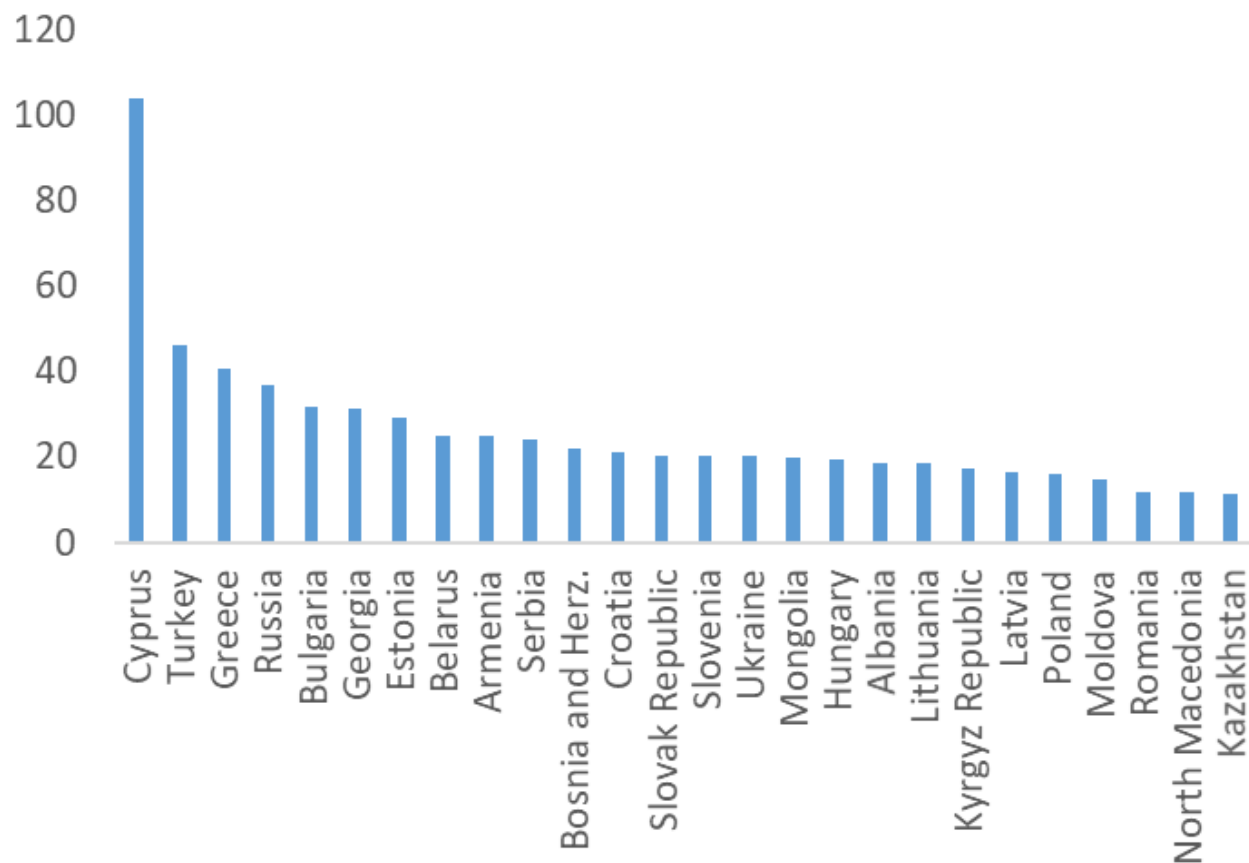
Share of self-employment is particularly high in the Caucasus and Central Asia

Share of self-employment and small firm employment, 2016 (per cent)



Firms with already high levels of debt face greater risks

Corporate domestic debt as a share of GDP, 2019 (per cent)

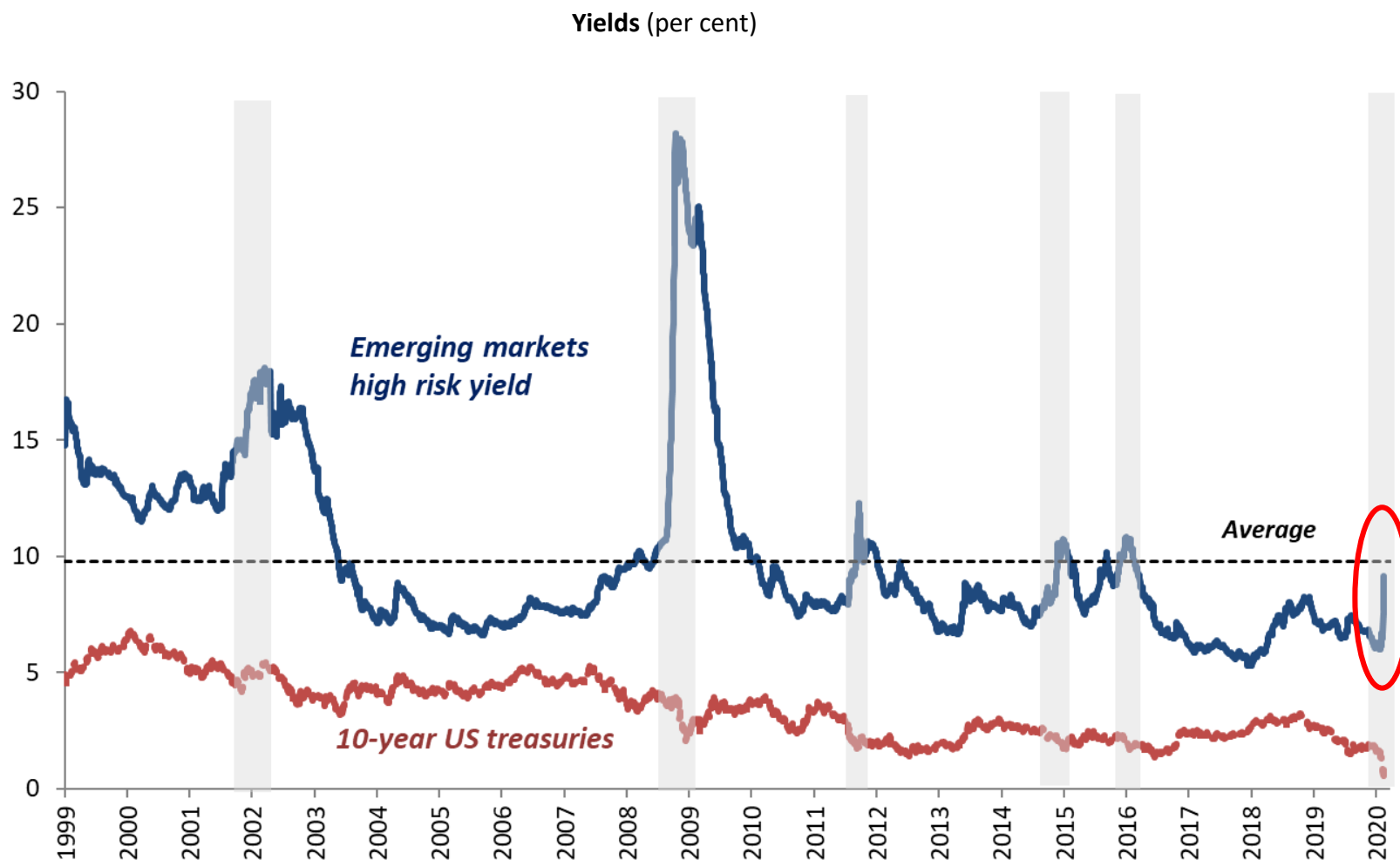


Higher-risk borrowers in emerging markets face rising funding costs even as policy rates dropped



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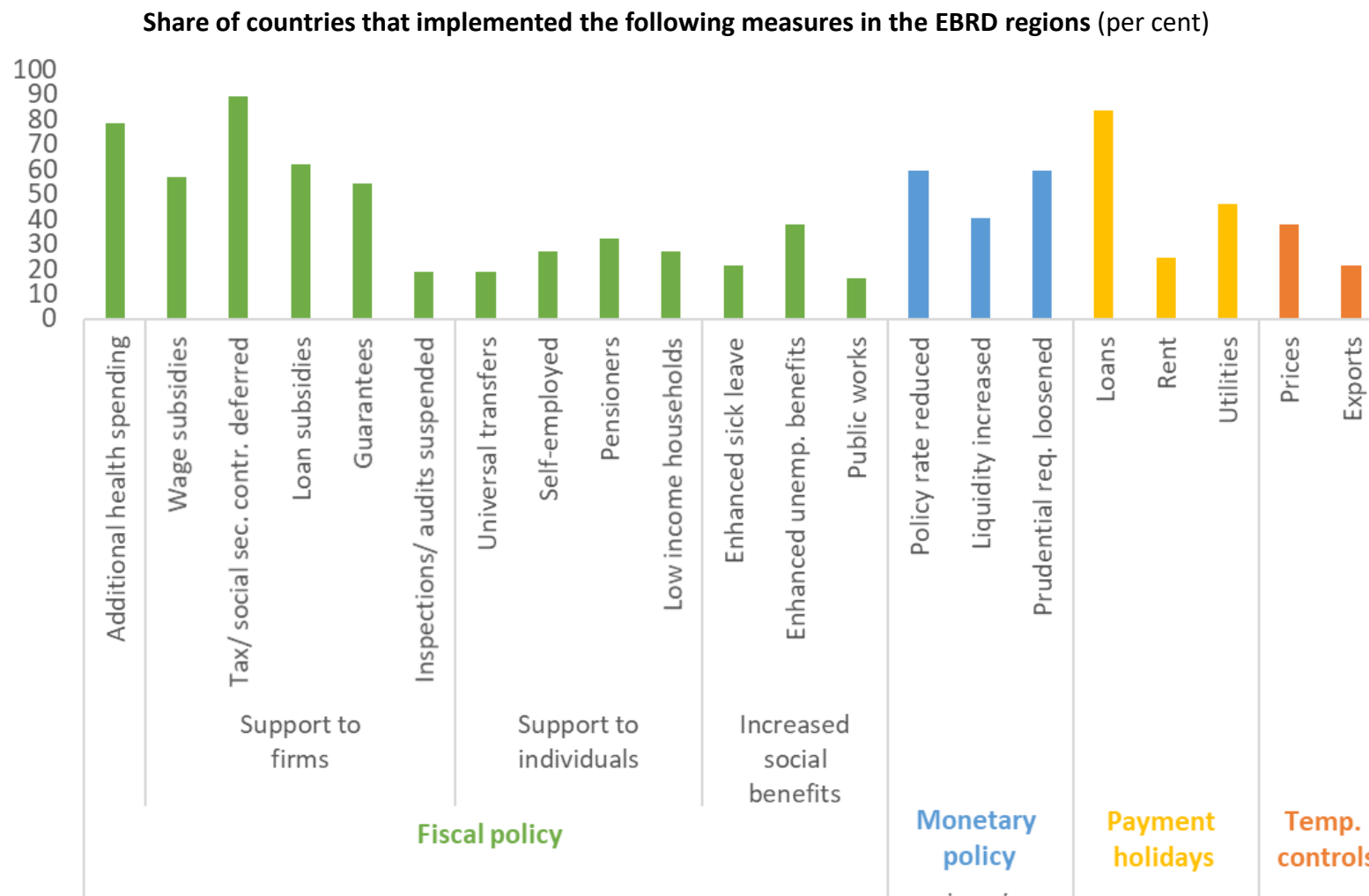
Investors fled to the perceived safety of advanced economies, the US\$ strengthened sharply



Fiscal policy measures to avoid mass layoffs and bankruptcies aim to speed up recovery



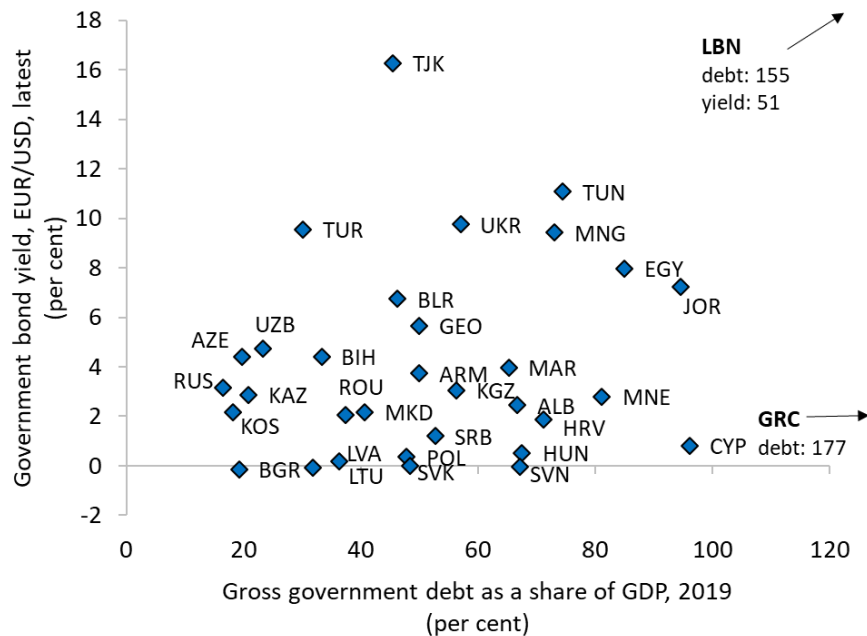
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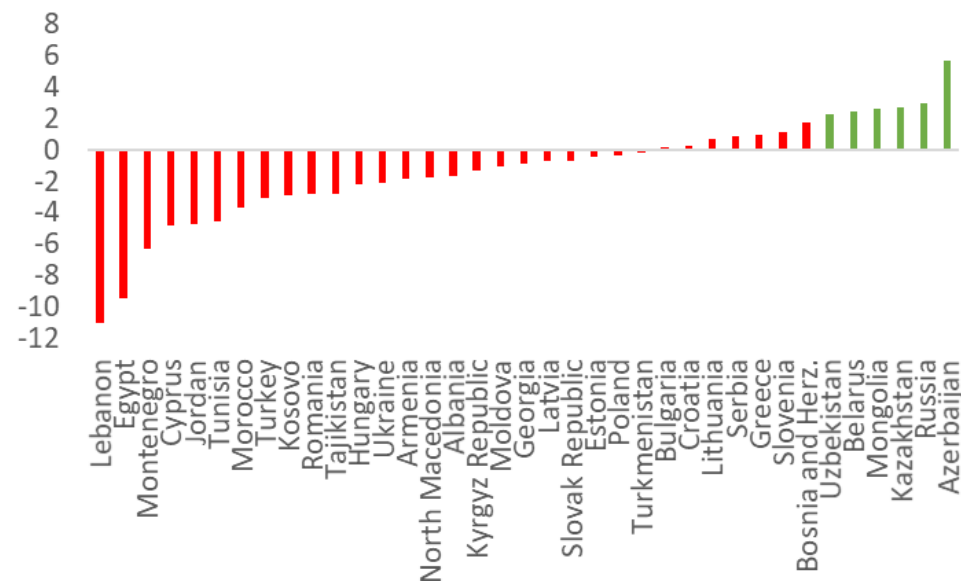
Fiscal space available to countries to finance crisis response measures varies

Cost of borrowing in financial markets is already high in some countries such as Turkey and Ukraine

General government gross debt as a share of GDP and bond yields



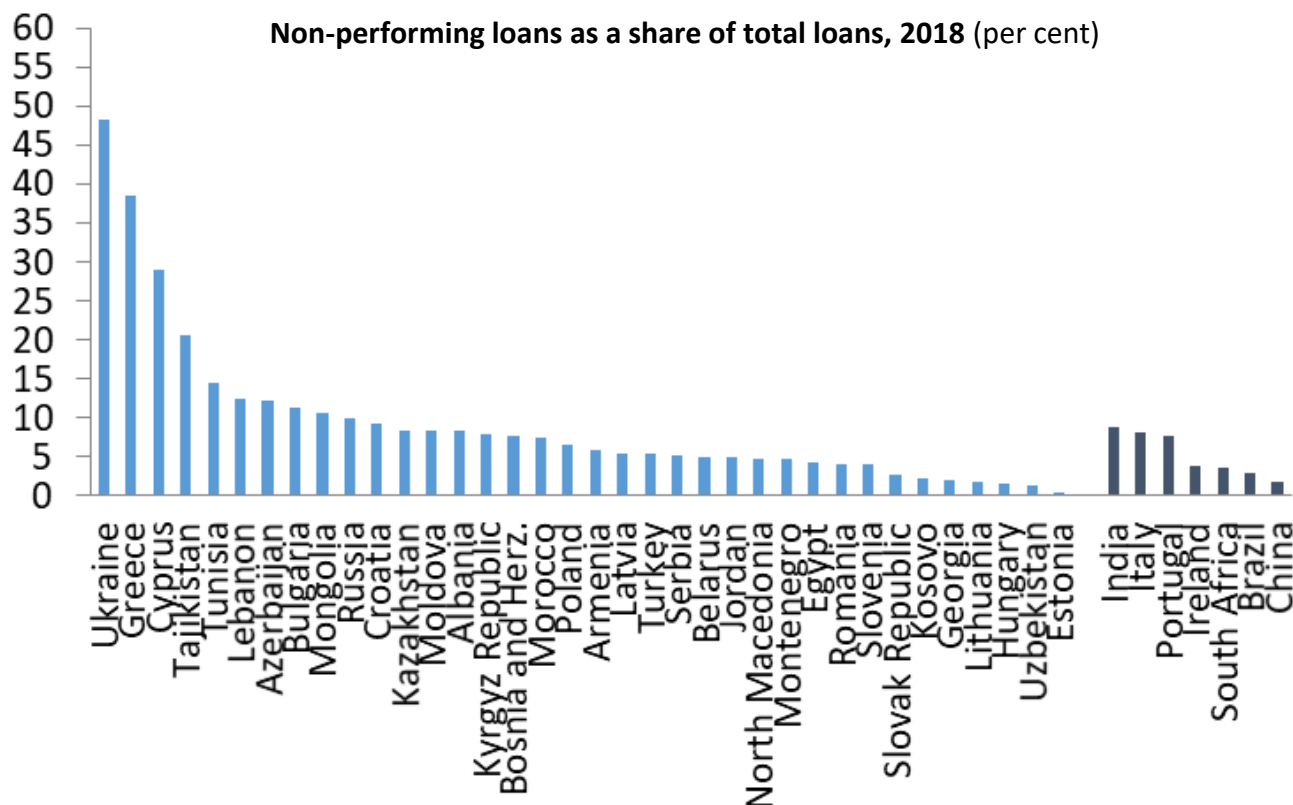
General government net lending/borrowing as a share of GDP, 2018 (per cent)



Policy response also focused on lower interest rates, liquidity support, guidelines on forbearance

The crisis may compound the already high levels of non-performing loans in a number of countries

If protracted lockdowns, concerns about maintaining culture of paying bills on time – key market institution



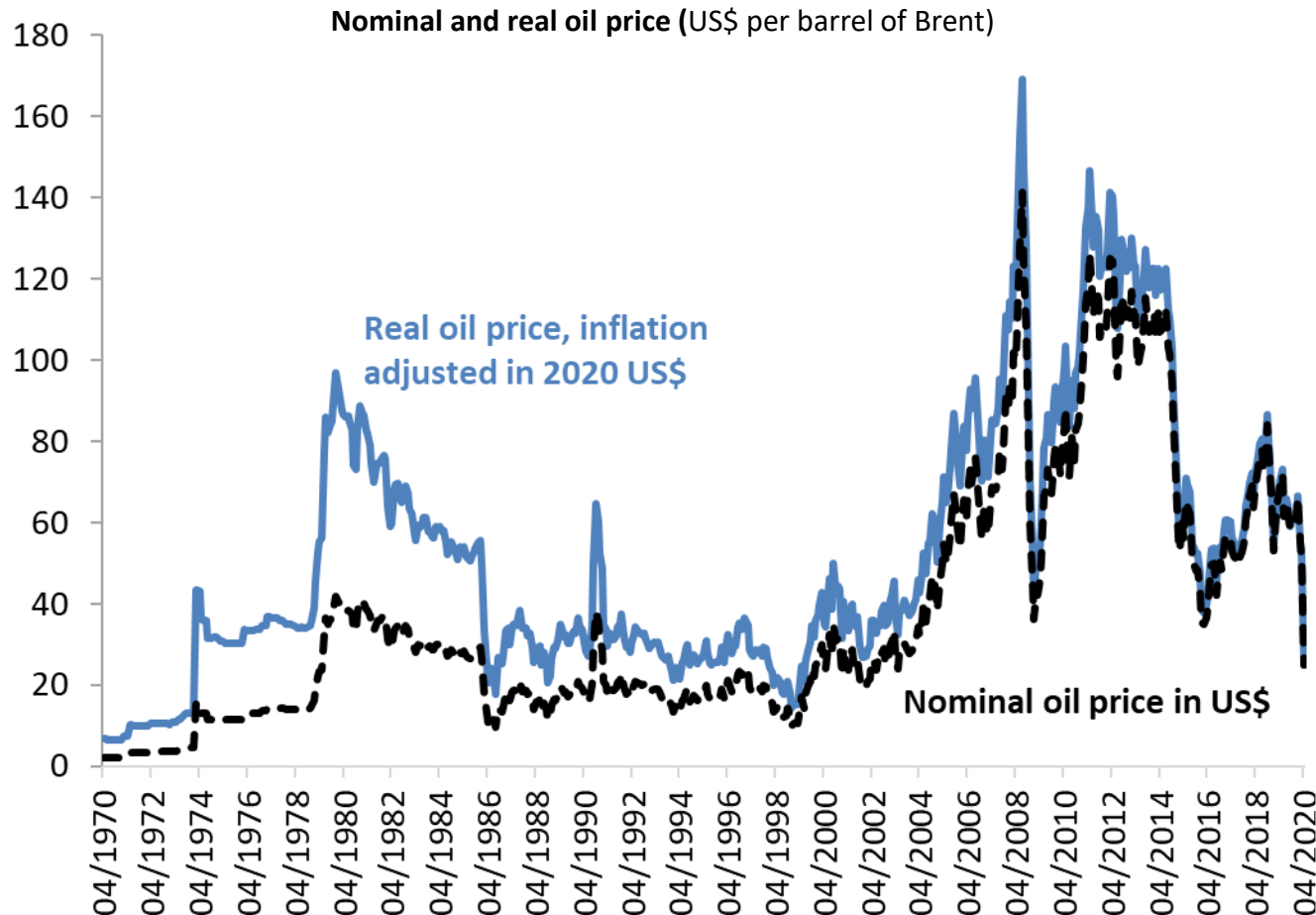
External shocks



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Oil price dropped to levels last seen in 1999 (in inflation-adjusted terms) on weak outlook

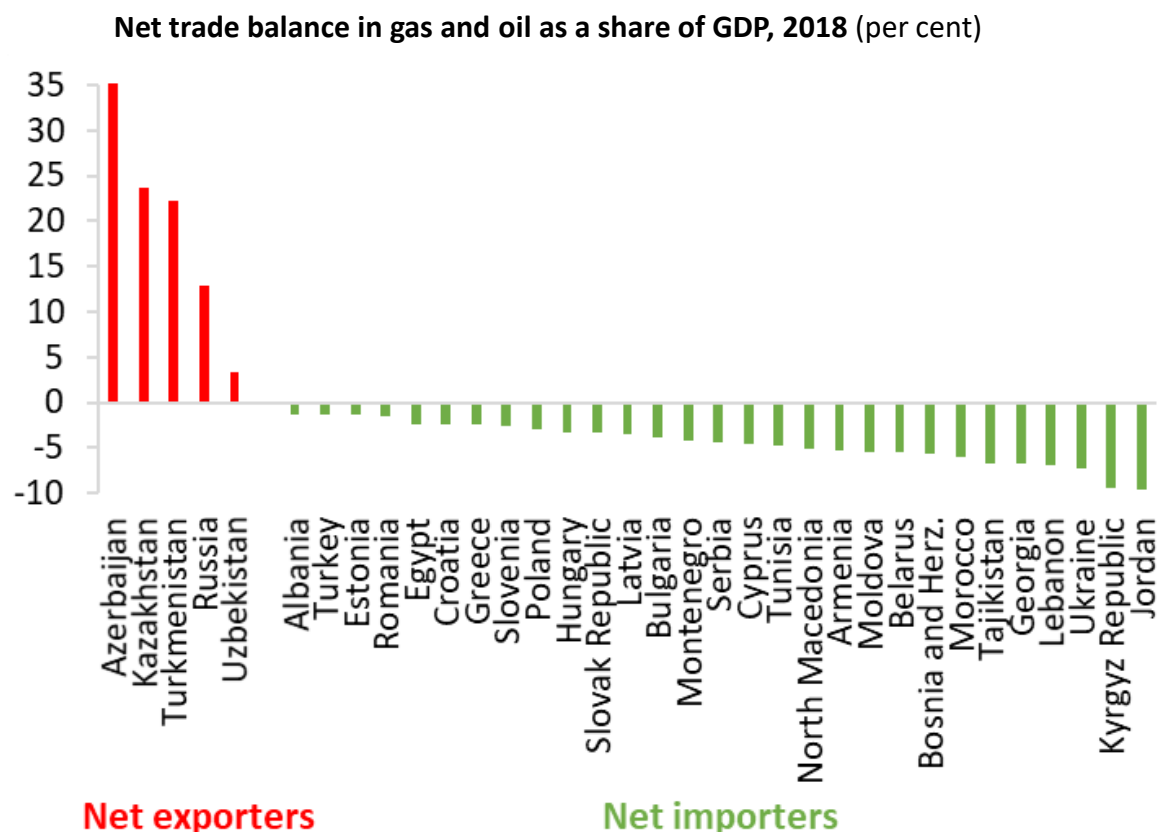
As Russia refused to agree production cuts with OPEC and Saudi Arabia increased production



Lower commodity prices will weigh on growth in commodity exporters but help importers

Flexible exchange rates can help cushion the shock

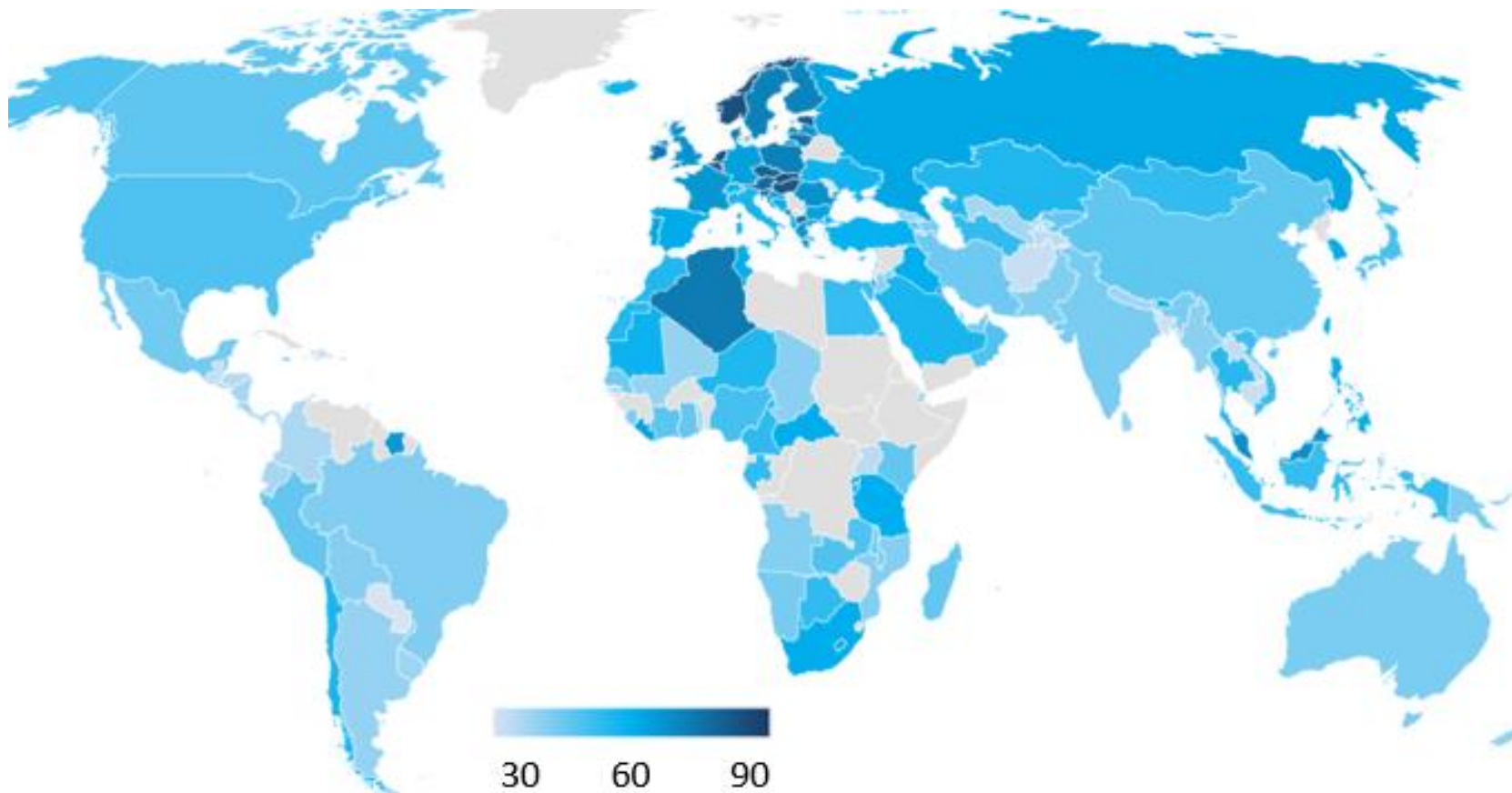
Most countries in the EBRD regions are net importers, but gains are likely to be modest in the presence of containment-driven restrictions on consumption / demand



Disruptions to trade and global value chains will hurt highly integrated countries in the EBRD regions

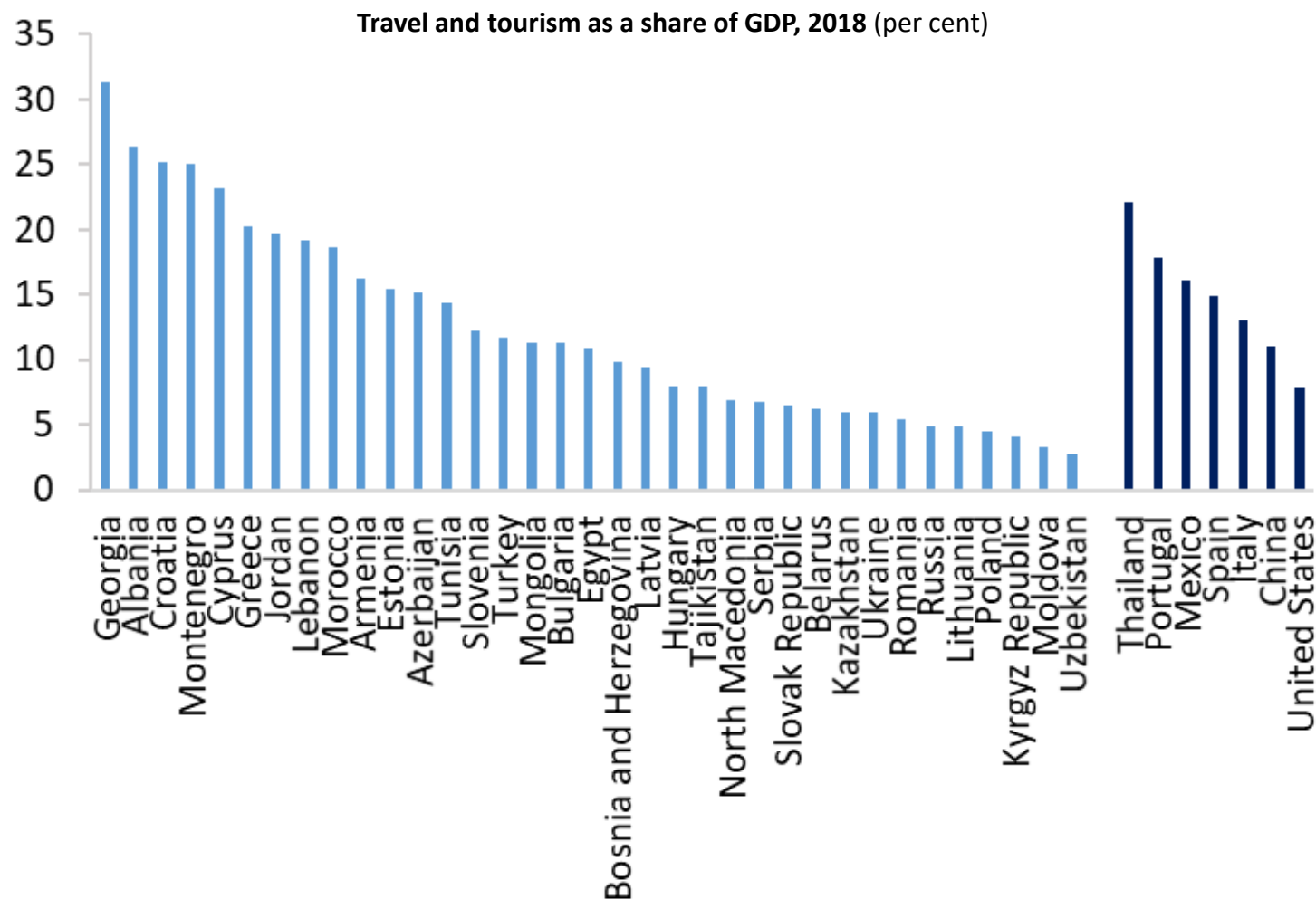
Many car plants around the world, including in Serbia, had to halt production due to missing parts early

Global value chain participation as a share of exports, 2018 (per cent)



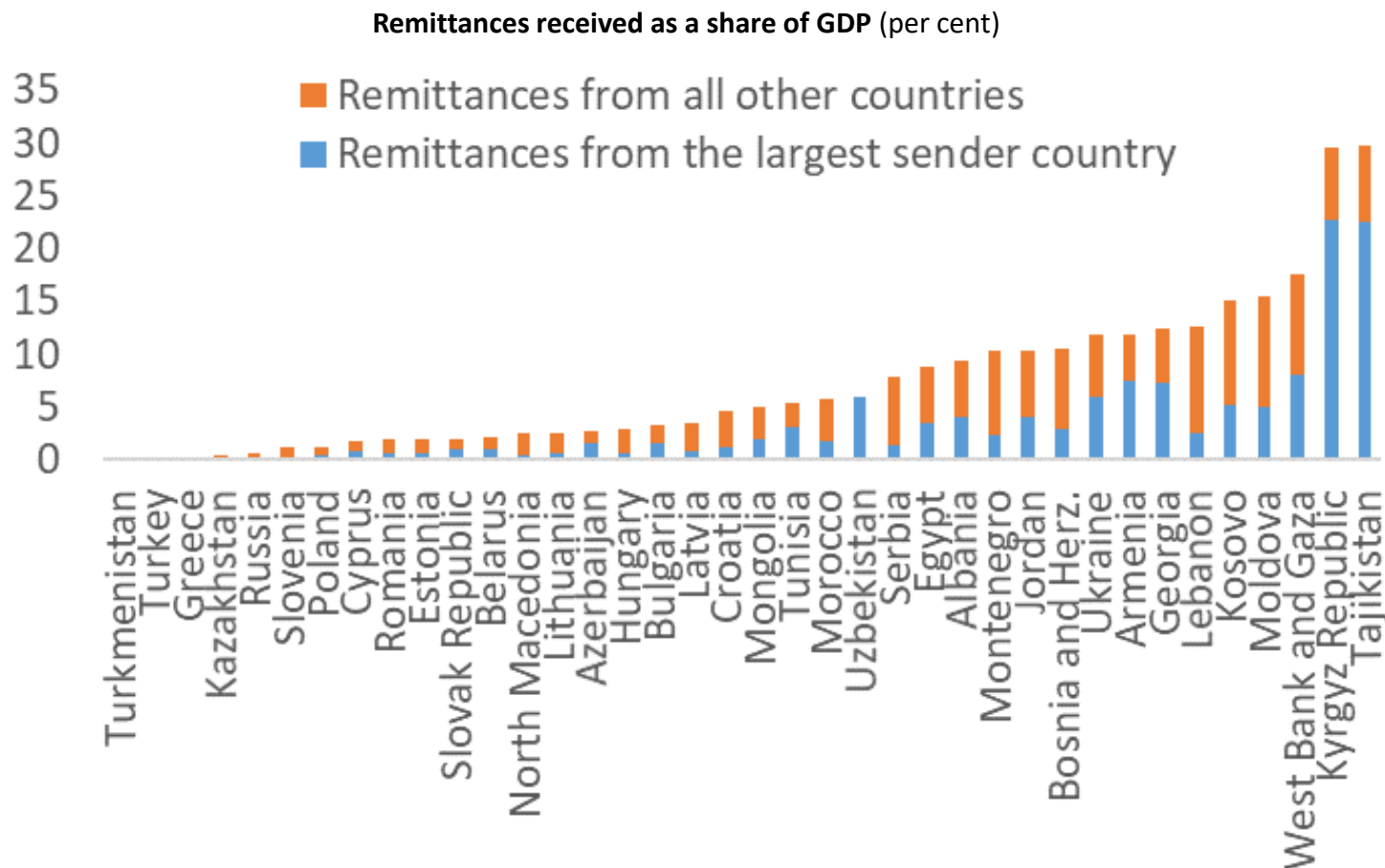
Several economies in the EBRD regions are highly vulnerable to collapse in global tourism

Tourism revenues exceed 20% of GDP in Georgia, Albania, Croatia, Montenegro, Cyprus and Greece



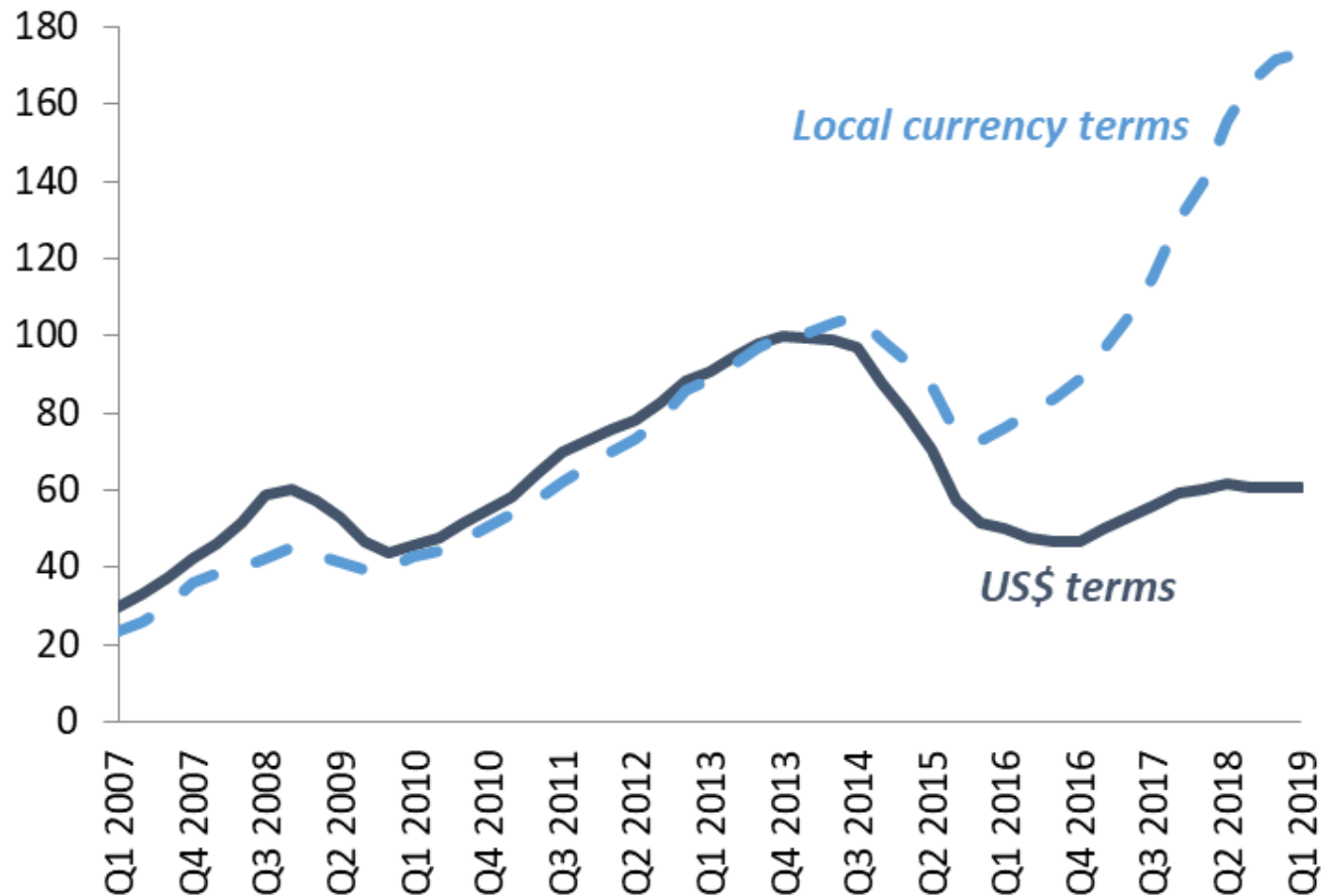
Some countries in the EBRD regions are highly dependent on remittances

Remittances are concentrated in terms of source countries (Russia, the Gulf Cooperation Council, France, Germany and Italy), making recipient countries vulnerable to large shocks hitting the sending economies



Flexible exchange rates can help to adjust to lower remittances in US dollar terms

Remittances from Russia to Central Asia and Eastern Europe (index, 2013 = 100)



Longer-term diversification



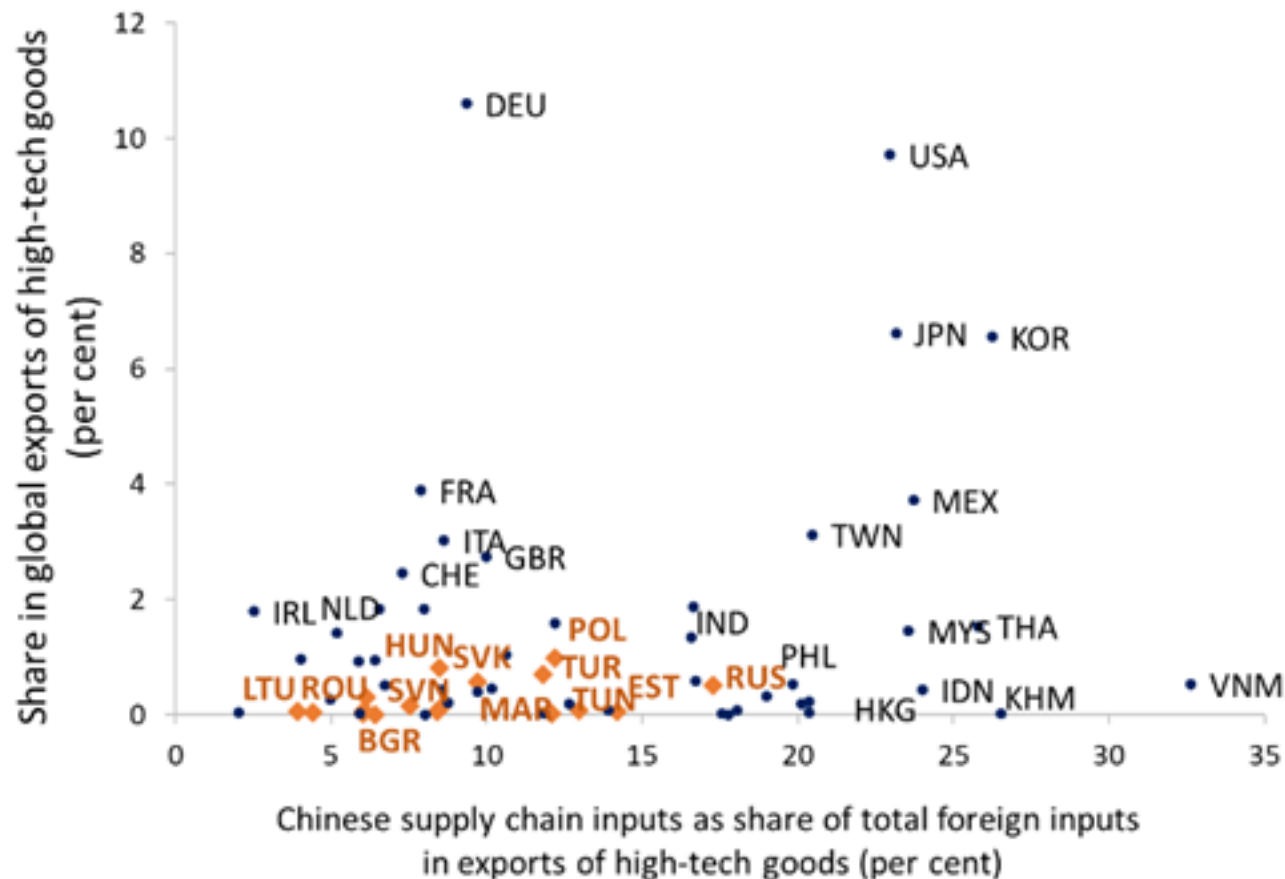
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Covid-19 crisis may lead to scrutiny of supply chains and greater focus on diversification and resilience



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China's value added as a share of total foreign value added in exports of high-tech goods, 2015 (per cent)



The EBRD regions could scale up their exports in product groups with comparative advantage

Economics in the EBRD regions appear to have high revealed comparative advantage in textiles, metals, chemicals, agriculture and machinery

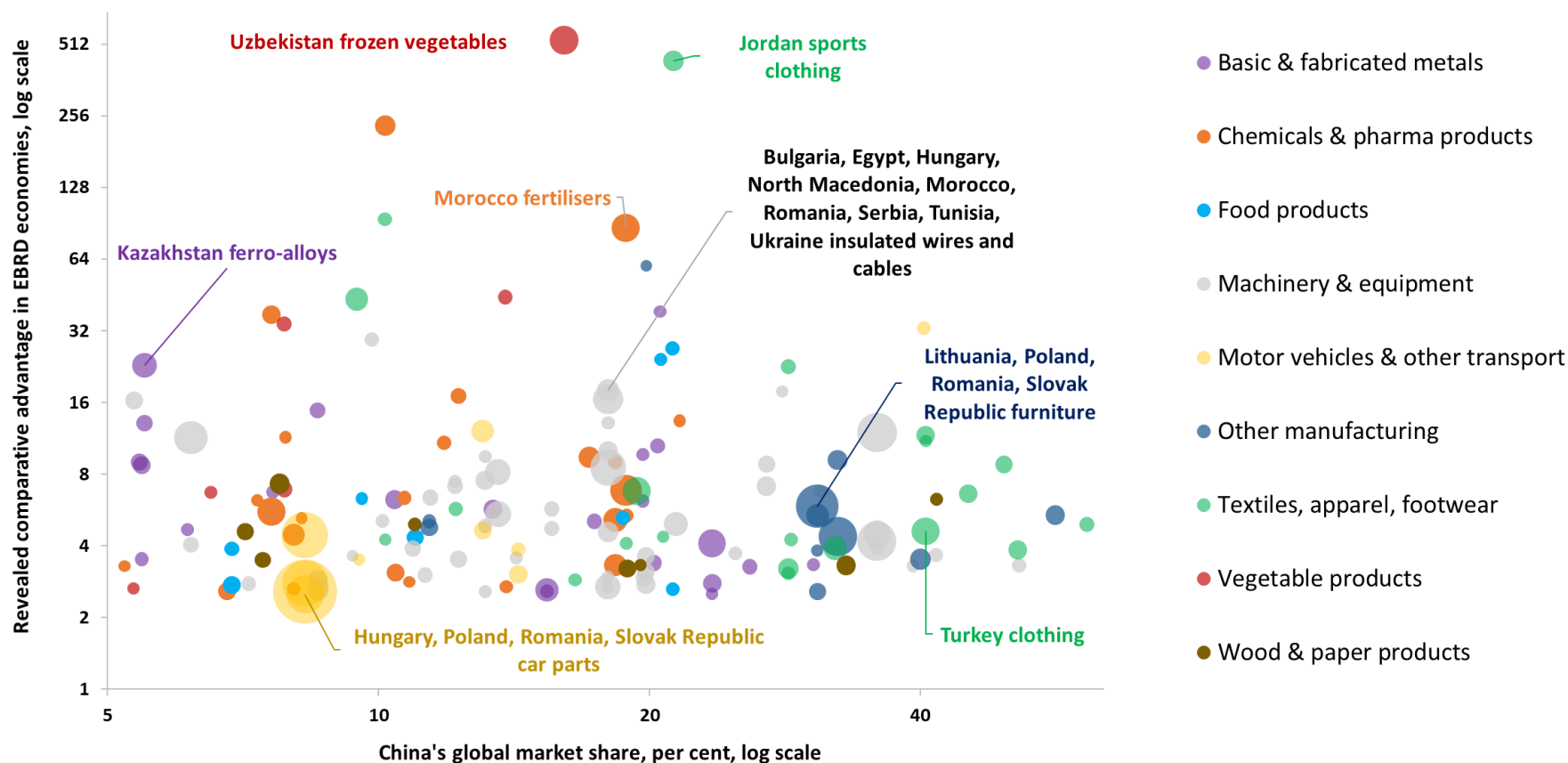
4-digit product lines with revealed comparative advantage ($RCA \geq 3$) by sector, share in per cent



Potential to scale up exports in product groups with RCA where China is a major supplier globally

Hungary, Poland, Romania and the Slovak Republic have comparative advantage in motor vehicles; Jordan, Morocco and Tunisia in apparel and textiles, though with still smaller export volumes

China's share in global exports vs product groups exported with significant comparative advantage and in large volumes in the EBRD regions, 2018

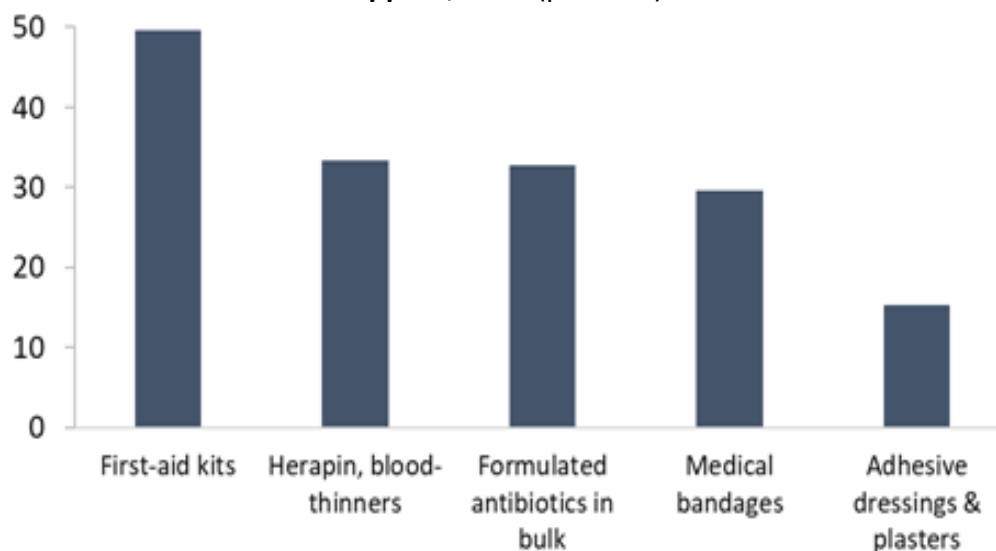


EBRD countries could also expand exports of products *closely related to* the currently exported

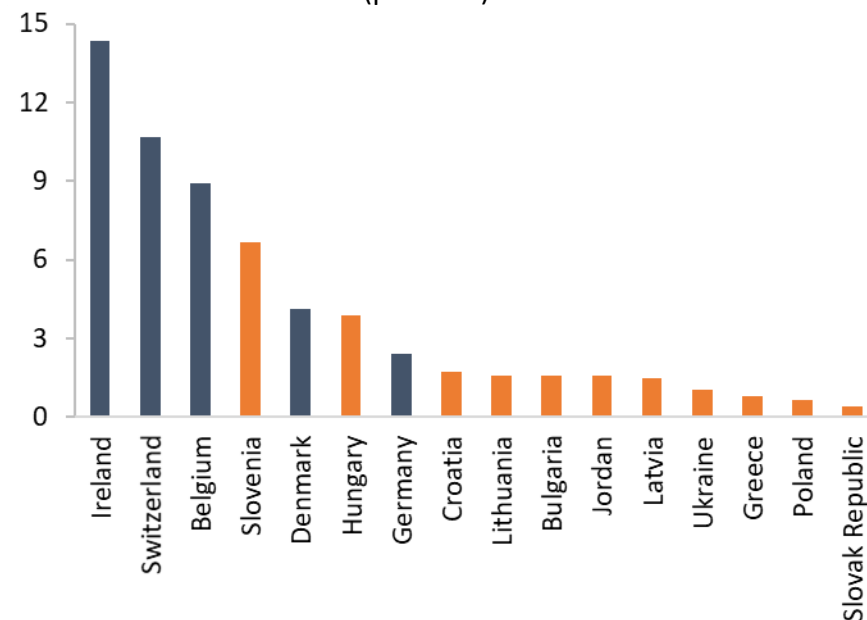
For instance, in pharmaceuticals, China's share of total G7 imports is high for pharmaceutical components

Economies in the EBRD regions export relatively little in these exact products, but they do have important export bases in the broader pharmaceutical sector, from which they could grow and diversify their exports

China's share in G7 total imports of selected medical supplies, 2018 (per cent)

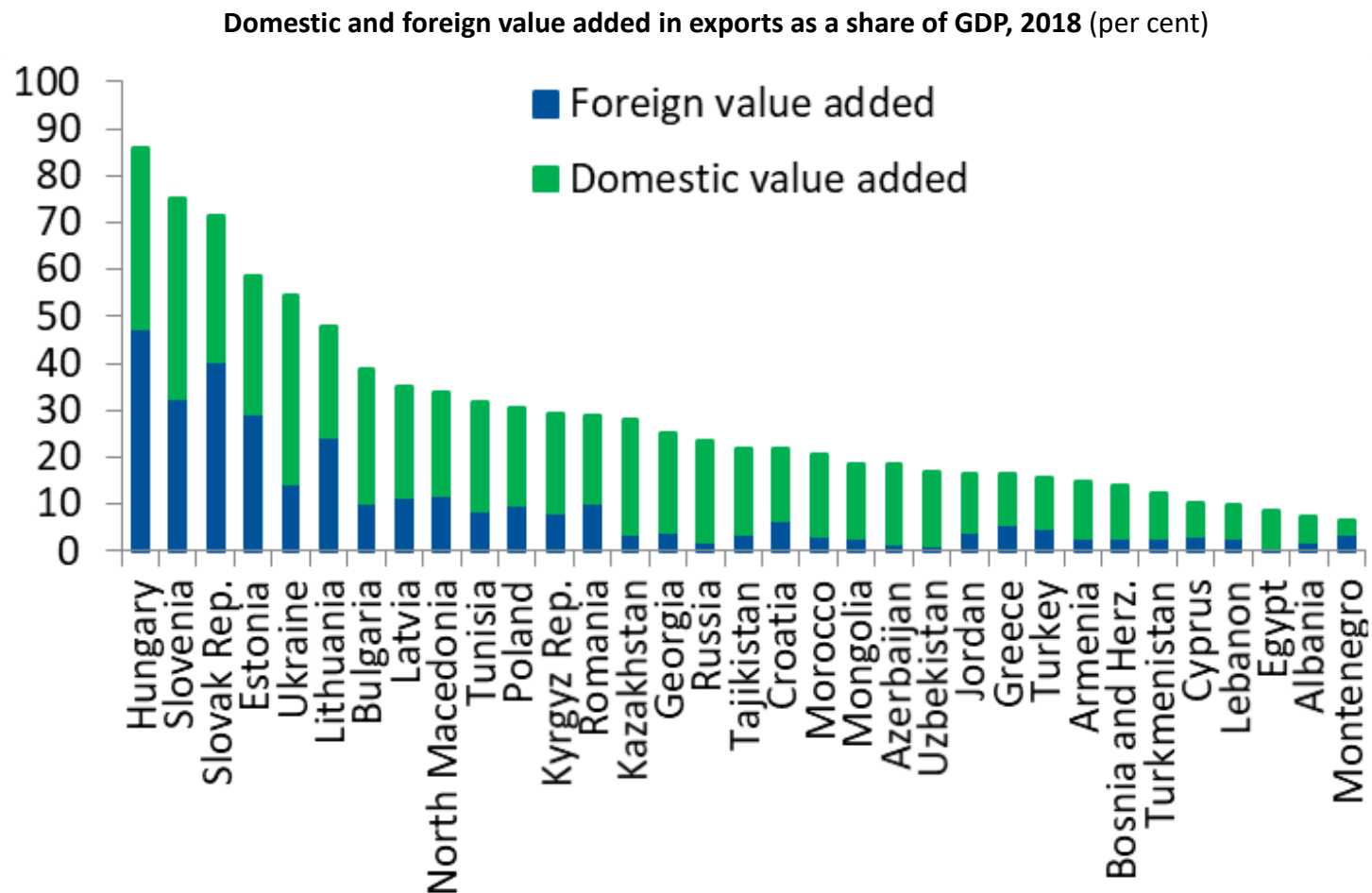


Pharmaceutical exports as a share of GDP, 2018 (per cent)



Foreign inputs are important in the exports of many EBRD economies

In Central Europe, ≈45% of exports by value added are first imported in the form of inputs and components



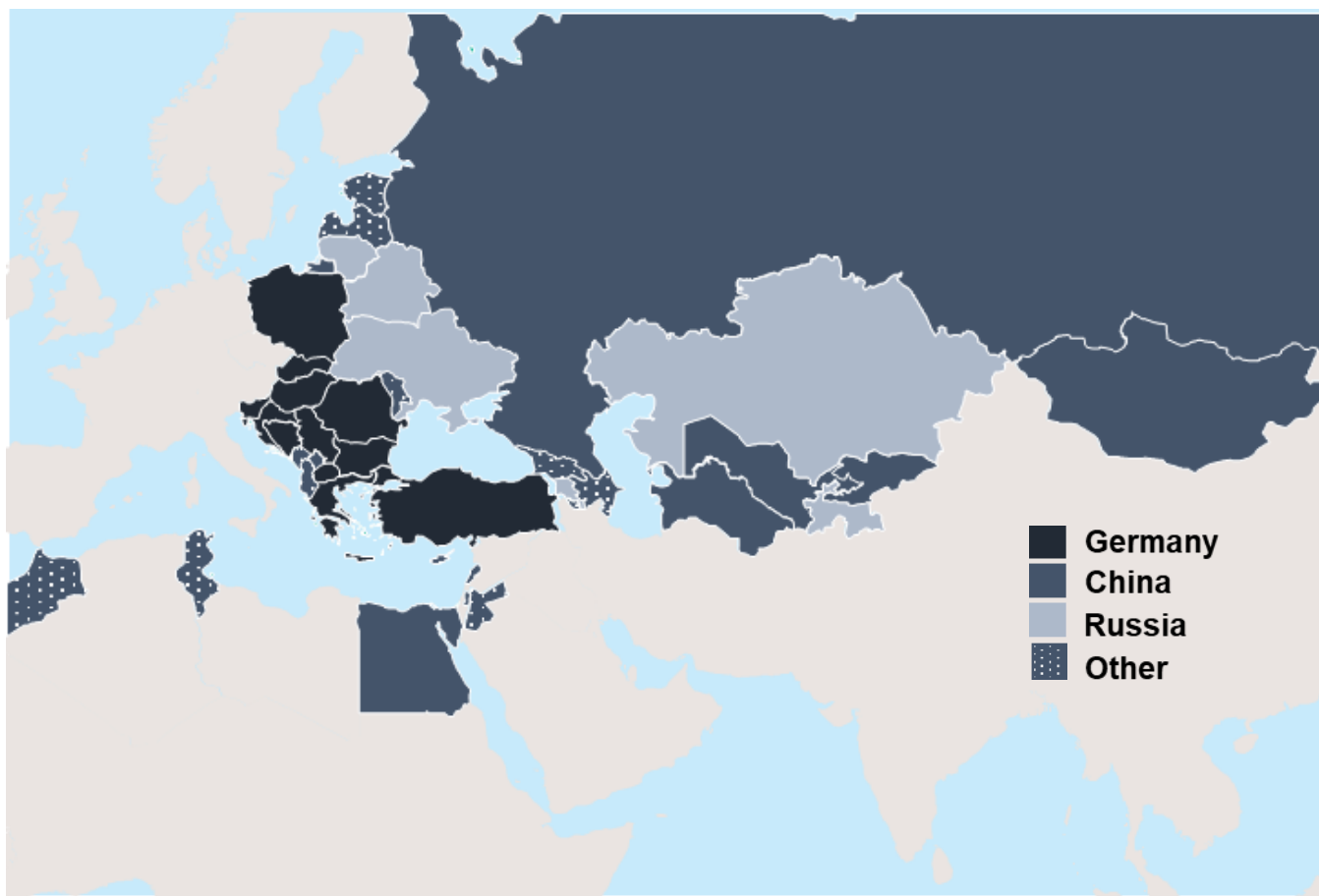
Trade links with China are strongest in Central Asia



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Economies of central and south-eastern Europe are strongly integrated with Germany's;
and economies of eastern Europe remain strongly interlinked with Russia's

Most important trading partner for EBRD economies, 2018/19



Concluding remarks: Profound economic impact of containment measures and external shocks

Numerous countries in the EBRD regions and across the world have closed their borders to people, closed schools, universities, restaurants and shops, **a growing number of countries have implemented lockdowns** and curfews

These measures will have a profound impact on the economy, as up to 40 per cent of consumption in advanced economies is estimated to involve public gatherings

The **collapse of tourism** disproportionately impact a number of economies across the EBRD regions, economies will also be affected by a **sharp drop in commodity prices, disruption to global supply chains** and a **drop in external demand**

The extent of economic impact will depend on the structure of the economy as well as **governments' ability to support individuals and companies affected by containment measures**

Policy response focused on lower interest rates, **liquidity support**, guidelines on forbearance to enable restructuring and extension of loans, repayment holidays

Fiscal policy measures to support individuals and firms experiencing loss of income to avoid mass layoffs and bankruptcies so that speedy recovery is possible once consumption restrictions are lifted

Fiscal space to implement such (costly) measures varies by country, some may need internationally coordinated support

In the longer term, significant economic and social impacts are likely. For instance, the outbreak will lead to scrutiny of supply chains, including in non-tech sectors, with greater focus on diversification and resilience, which **could offer opportunities**

Annex: Health care systems

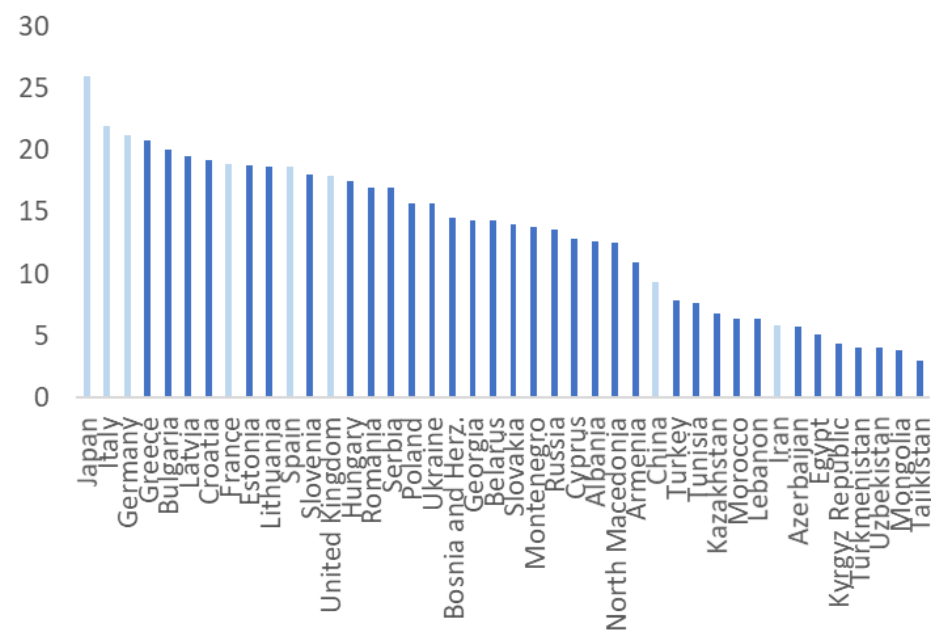


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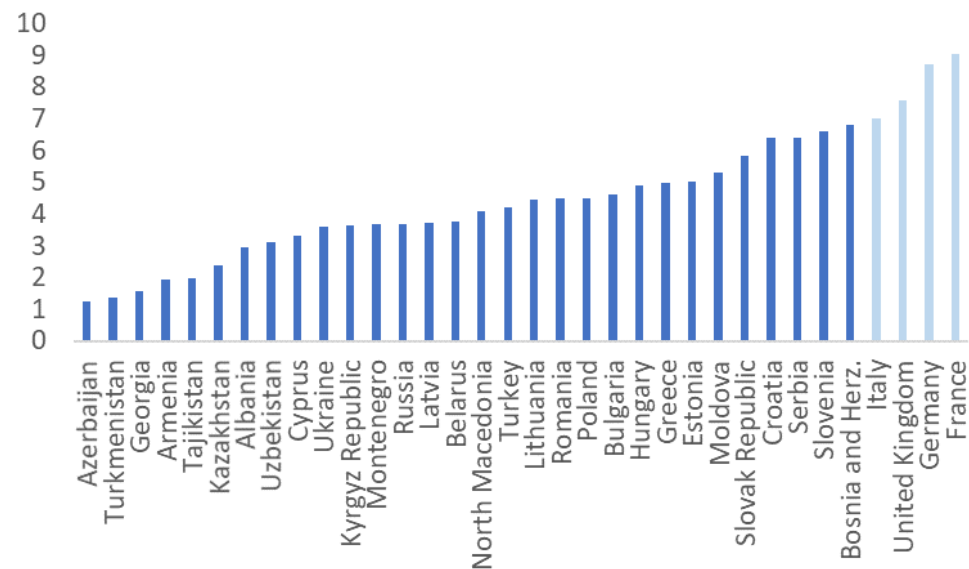
Emerging Europe's demographics are similar to those of advanced European countries

But public health care spending in the EBRD regions is far below that in advanced Europe, with fewer doctors per population

Share of population over the age of 65 (per cent)



Public health care expenditure as a share of GDP (per cent)

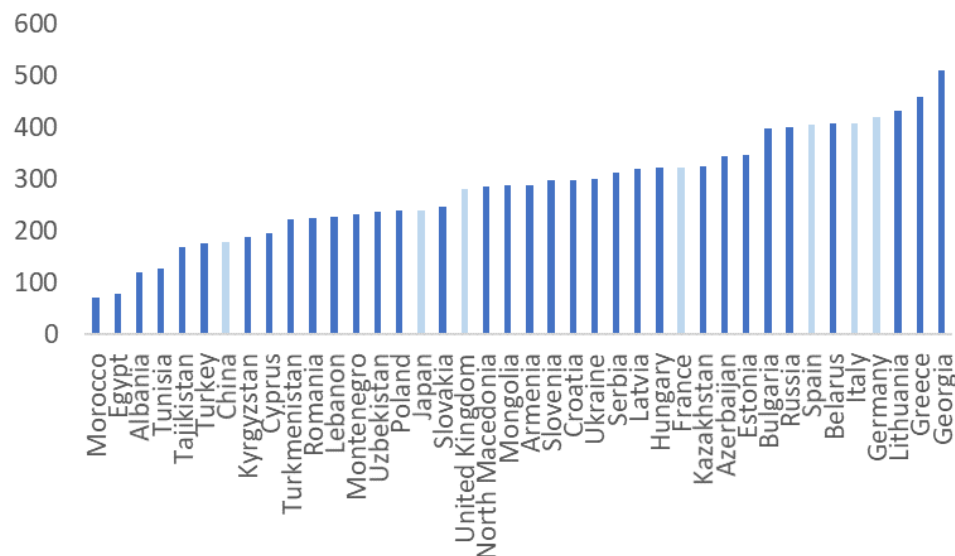


Although economies in the EBRD regions compare favourably in terms of the number of hospital beds

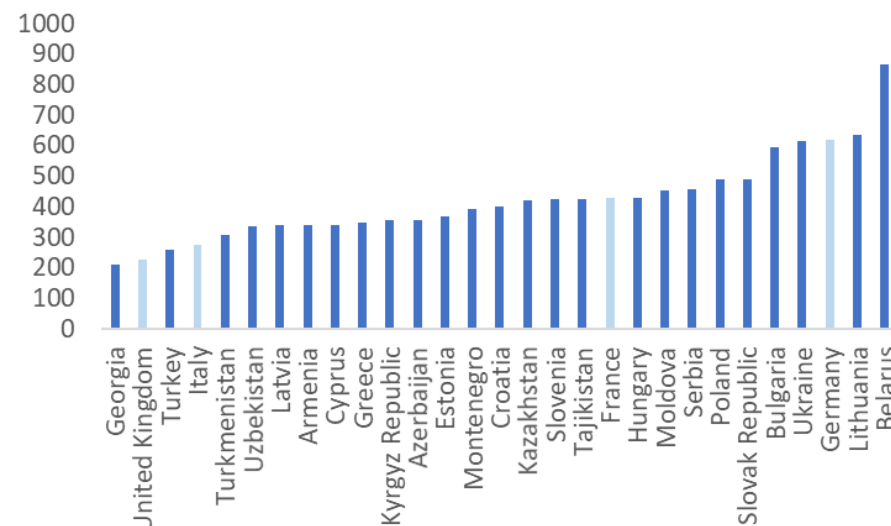


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Number of practicing physicians per 100,000



Number of acute care hospital beds per 100,000



Annex: Global recessions



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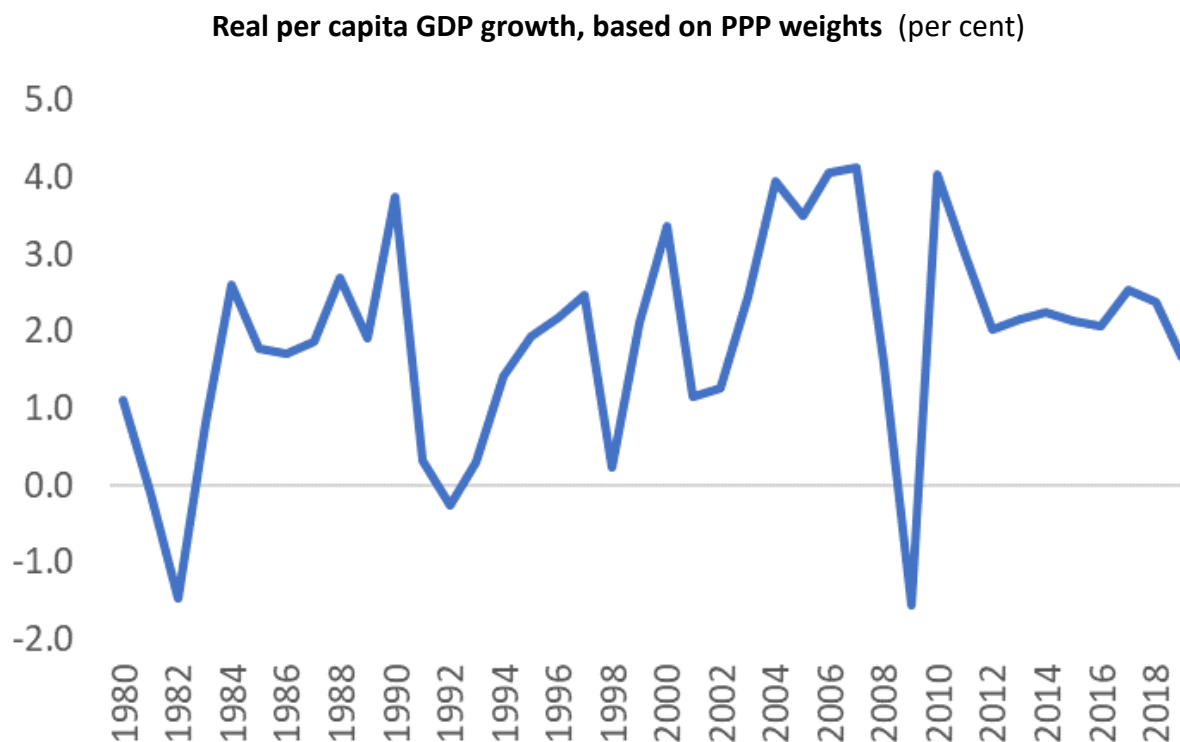
Global recessions are very rare



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Global real *per capita* GDP growth, at PPP weights, only fell below zero three times in the last 40 years: in 1981-82, 1992 and 2009

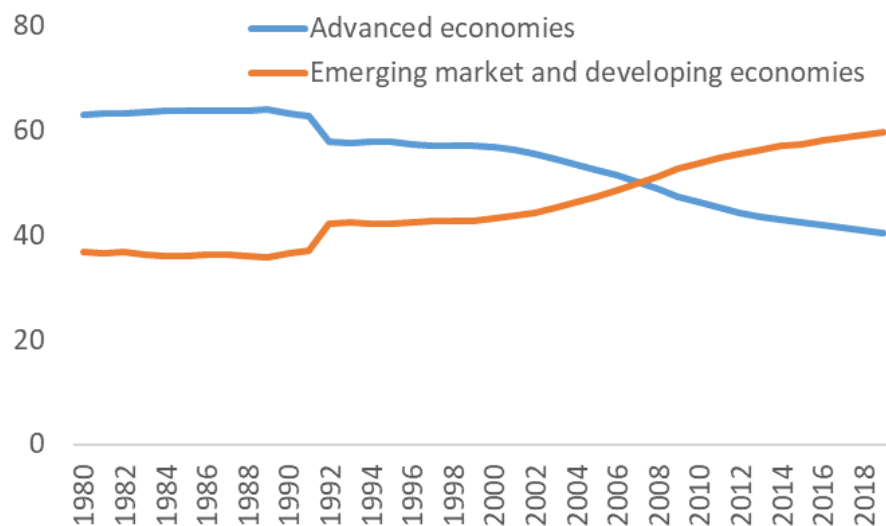
Global real GDP growth was negative only once: in 2009, whether at PPP or market exchange rates. Population-weighted GDP growth did not fall below zero at all over this period



The choice of country weights has become more important over time

Emerging markets now account for around 60 per cent of world output at PPP

Share of global GDP, based on PPP weights (per cent)



Share of global GDP, based on PPP weights,
20 largest economies, 2017 (per cent)

